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INDUSTRY REPORT:

Steel future is cast in quality, value, & delivery

- Crystal Ball forecasting contest winners
- Beware the perils of software purchasing

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Lighting
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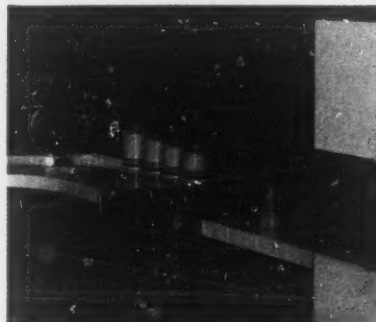
PurchasingWorld

Helping you manage the business of buying

March 1986
Vol. 30 No. 3

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Oil greasing the way for more growth

Add tumbling oil prices to the list of factors likely to keep a lid on inflation over the next 6-12 months.

Although the exact amount of decline in crude oil is still subject to change, it is clear that the drop will affect all areas of the economy.

Looking first at energy, the dropoff means refined petroleum products could fall as much as 20%—possibly as early as next spring or summer. The rule of thumb for gasoline is that every dollar fall in the price of crude translates into a 2.5¢/gallon drop

at the pump. That suggests gasoline could be selling for under \$1/gallon before too long.

Elsewhere, the slide means energy-intensive transportation industries such as airlines and trucking will have substantially reduced operating costs and, therefore, lower-than-previously forecast rate increases. Other

heavy energy users, such as the aluminum industry, are also likely to gain in the long run in the form of smaller power increases. Overall electricity rates should be up only about 2% this year.

What does this all add up to? Assuming crude oil settles around the current levels, there would be about a 1% reduction in the nation's overall 1986 inflation rate, to perhaps only about 2.5-3% (GNP deflator basis). And, since energy is such an important factor in consumer outlays, the cost-of-living index could well show an even smaller 2-2.5% advance.

A lessening of inflationary expectations will allow the Fed to ease money a little more than it might have otherwise. And sharply lower fuel prices should give economic activity a shot in the arm because the dip in oil prices to current levels is equivalent to a tax cut of \$40 billion. This will provide a lot more cash for additional consumer spending. The oil price slide could push real GNP up another 0.75-1.0% this year.

The additional prod could result in a 3.5-4% real growth rate. That's fairly close to the Administration's estimate which, until the oil price tumble, seemed far too optimistic.

What's true for the U.S. will also be true for most of the other major Free-world industrialized nations. An OECD spokesman, for example, says that member nations, overall, will experience about a 1% drop in previously predicted inflation rates.

Also on the international front, faster global growth will eventually ease the record U.S. trade deficit, as overseas buyers end up with more money to purchase American goods.

But not everybody is happy about the plight of oil. Bankers are now much more concerned about the

financial viability of such debt-ridden oil producers as Mexico, Nigeria, and Indonesia. Some political destabilization is also possible in some of the oil-producing nations.

But, overall, the impact of falling crude oil prices has to be regarded as very positive—providing the nation with another year of solid non-inflationary growth and greatly improved prospects for more of the same in 1987.

Office automation

The nation's machine-oriented business offices may be becoming a lot more efficient. But these advances are not being made without problems.

A new Administrative Management Society study of 45 companies finds three major hitches in the actual use of office automation. The first problem, and it comes as no surprise, is the lack of equipment standards. The other two difficulties are "people problems." The crossing of organizational lines involved in office automation continues to cause friction—so-called "turf" battles. And, there is still some anxiety on the part of workers being asked to use office automation systems.

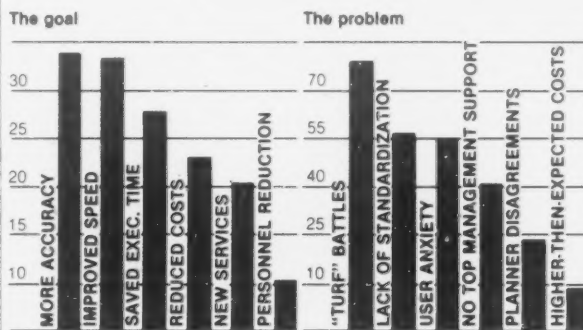
Interestingly enough, having to justify OA in concrete dollar-saving terms has not been a major barrier in gaining approval from top management. But the study adds that at least some effort must be made to "price-tag" the savings realized from intangible benefits so that top management can see a "bottom line."

But whatever the problems, they are obviously worth putting up with. More than four out of five survey respondents state their office automation objective as increasing the speed and accuracy of information flows.

On the other hand, personnel reduction is the lowest on the list of reasons for implementing OA. Reason: Data and word processing have long since wrung the fat out of such labor-intensive operations as routine correspondence, invoicing, and inventory control.

Office automation

(Percent of respondents)



Source: Administrative Management Society

PW PREDICTS

Energy

CURRENT SITUATION: Credit the oil tumble with revision of energy cost forecasts for the year. Basic energy costs are now 25% under levels of late last year, and further declines are inevitable. For the longer run, the crude oil decline could make oil more competitive with coal and natural gas in some industrial and residential markets. **There'll be fallout in other energy sectors as less interest is shown in unconventional power sources like solar energy and syn fuels.**

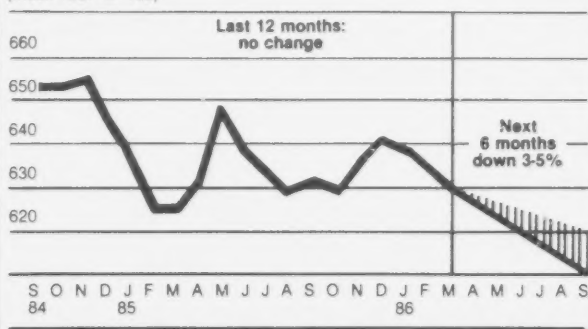
DEMAND: Any increase in 1986 usage—stemming from lower prices—should be minimal simply because consumption habits change slowly. *PW's* usage estimates show only a small upward revision for this year: oil (+0.5% vs. -0.5% last year), natural gas (+0.5% vs. -2.5-3% in 1985), coal (+2% following last year's 3.5% advance), and nuclear (+6% vs. last year's 13% rise). **Overall energy usage will gain 1.5-2% but will still be well under the 3% real GNP gain expected.**

SUPPLY: There's more than enough of everything to go around. This is true of oil where all-out Saudi Arabian production spurred the recent price decline. There's plenty of non-OPEC oil around too. Overcapacity is also evident in coal where production is expected to hold at 1985 levels—keeping operating rates well under preferred levels. **Industry analysts put the current natural gas surplus as high as 15-20%.**

PRICE OUTLOOK: Oil-based product prices will fall the most—perhaps as much as 20¢/gal. off the average gasoline price by summer. Heating and resid oils will also fall. Coal and natural gas will be insulated to some extent because both are still cheap compared to oil. The average gas price is now the equivalent of \$15-18/barrel oil—and coal is even cheaper. **Gas quotes could be off 1-2% this year—while coal barely holds its own. Electricity should only rise by 2%.**

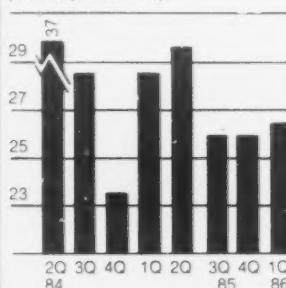
Fuel & Energy prices

(Index 1967 = 100)



Polyvinyl chloride prices

(Market prices, ¢/lb.)



Polyvinyl chloride

Prices are beginning to rise on a combination of increasing raw material costs, the need to improve profit margins, and better-than-expected demand (as a milder than normal winter in many areas of the country draws down pipe inventories). Market prices for pipe grade, for example, are now in the 26-27¢/lb range—up 1¢/lb from month-earlier levels. And some producers talk of reaching 30¢/lb by sometime this spring. Part of this optimism is based on forecasts for a 3-4% increase in 1986 demand and fairly high 80-82% operating rates.

Copper

The situation continues to improve. Inventories are down—Comex holdings are off 50,000 tons in 1985 and Free-World stocks are down to under a million tons. Another plus is the strong dollar. Nevertheless, the red metal is still finding it hard to sustain a significant rally because speculative interest has all but disappeared and global demand seems rather

flat. Refined copper consumption is expected to remain at last year's 8 million ton level on a global basis. But this does not rule out some advance by spring, when demand reaches its seasonal peak, and hedge buying to beat a possible strike add to the overall thrust.

Zinc

Gluts continue to plague the market. Current Free-World production and consumption figures point to a 25,000 ton excess this year—as the Chinese off-take drops (from 195,000 metric tons last year to 140,000 tons in 1986). Other bearish factors: 1) Cominco's decision to up production and 2) the mint's declining demand for pennies. Another of the metal's problems: A drop in auto die casting demand which is offsetting increased coating use by carmakers. No wonder the U.S. price recently dropped close to 30¢/lb—well under the 34.5¢/lb quote that prevailed only a few months ago.

Adhesives and sealants

Demand should increase by 2.7% a year over the next decade—reaching 13.5 billion lb by 1995. But the average price could rise a lot faster, primarily because of the more expensive synthetics (acrylics, polyurethanes, epoxies, polyesters, etc.) that are gradually replacing natural-based products. According to a new

Aluminum

CURRENT SITUATION: Expect some modest price firming. Price increases have been posted over the last few months on basic ingot and billet, common alloy sheet, rolled foil products, building products, and non-heat treated plate. Behind the advance: Slowly falling world inventories, scattered mill shutdowns (particularly here in the U.S.) and somewhat better demand. Final 1985 shipments ran better than 3% above 1984.

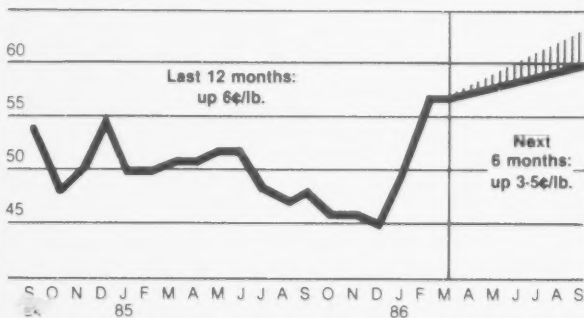
DEMAND: The slow uptrend will continue. 16.2 billion lb are expected to be shipped over the current year—1-3% more than in 1985. Most markets should share in the growth—aircraft will lead the way with a 4% increase. Building and construction will be about the only sector not to show any real gain. **In the longer run, domestic usage is expected to rise about 3-4% a year.** Auto use will jump to 200 lb per vehicle from the current 137 lb per car.

SUPPLY: There will still be excess metal around—even in the unlikely event of some hedge buying to beat a possible U.S. strike. Free-World stocks, pared by 400,000 metric tons over the last year, remain in the high 1.5 million ton range. Other supply-reassuring notes: 1) Noranda has just reactivated a 105,000 tpy smelter, 2) some closed U.S. capacity could be put back on stream, 3) reclaimed metal now accounts for nearly one-third of all U.S. needs, and 4) overseas capacity continues to grow.

PRICE OUTLOOK: Any added near-term price advances are likely to be small—both in ingot and in semifabs where discount reductions have had some buyer opposition. In any case, it will take time to digest already-posted boosts. Any sustained ingot advance is likely to reactivate closed capacity. **Best bet for ingot then: a price in the low 60s by summer—3-5¢/lb above current levels.**

Aluminum ingot prices

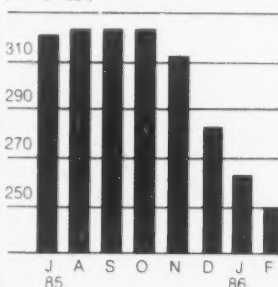
(cents/lb.)



study by the Freedonia Group of Cleveland, OH, the average price could be near \$1.19/lb by 1995—the equivalent of a substantial 3.9% annual rate of gain.

Mercury

(N.Y. \$/Flask)



Mercury

Figure on continuing shaky prices—perhaps even below recent levels which have dropped close to \$70/flask—more than 20% under levels prevailing this past October. Behind the slide: disappointing global consumption at a time when producers, with a lot of excess capacity, have been trying to expand their share of the market. On the capacity front, mines have only been operating at 50% of their potential—with added supplies coming from secondary metal (a big 27% of the market here in the U.S.).

Personal computers

Demand gains will be modest this year—up only 12% in unit terms, not all that much better than last year's disappointing 10% advance. More important, prices are still edging

lower. Some IBM models could decline by as much as 15% this spring. And by Christmas, some of the firm's more basic models, which sell for \$1,500 today, could be selling for under \$1,000. This, in turn, suggests heavy pressure on competing producers—with additional downward thrust coming from IBM clones (such as Leading Edge) which sell for roughly 40% less than comparable IBM models.

Computer software

The number of highly successful low-priced business packages continues to proliferate. One result is that older, more established products are now available at prices well under producer lists. The latest version of Lotus 1-2-3, for example, can be had for as much as 30% under list. Also look for tags on higher-priced micro software to continue dropping—as customers press for both volume discounts and site licensing (paying a fee for product duplication rights). The cut-rate mail order share of the micro software market is also continuing to grow and is expected to capture 40% of the overall market by 1990.

Paper

The market is firming a bit. Signs of the times: 1) Producers are again attempting to push liner-board prices up into the

PW PREDICTS

Nonferrous metals

Look for the price of some key nonferrous metals to increase—if not this year then certainly by 1987 or 1988.

This is one of the major findings of a new Bank of America Commodity Information Service report. The accompanying chart suggests that 1988 global nonferrous quotes—as measured by the London Metal Exchange (LME)—should be running as follows above last year's extremely depressed levels: aluminum (40%), copper (14%), lead (28%), and zinc (29%).

Some of the other cogent long-term observations:

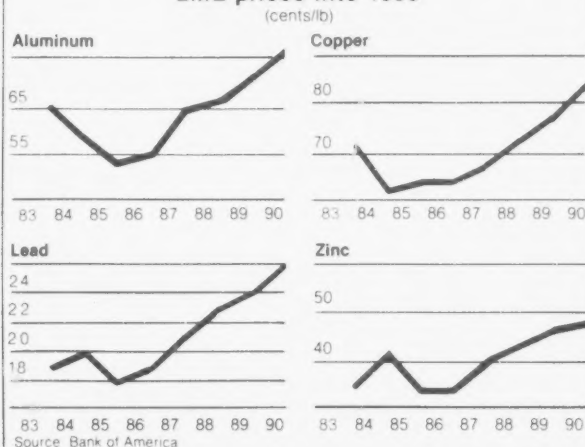
■ **Aluminum.** Demand should increase at a 2.5% annual rate—well under the 4.3% pace of the 1970s. The slowdown reflects saturation of the metal's major end-use markets (construction, transportation, and packaging) and competition from plastics and other materials.

■ **Copper.** Demand will increase slowly over the next decade, averaging about 1.5% a year. Consumption in industrial countries, where the intensity of copper use is declining, will be virtually flat. The red metal will also continue to be plagued by substitution of alternative materials such as plastics and aluminum. The greatest demand loss will occur in telecommunications, as fiber optics gradually displace copper cables.

■ **Lead.** Worldwide growth is expected to average 1-2% over the next decade. Batteries will continue to be the big end use despite much discussion and research concerning non-lead battery substitutes. On the other hand, batteries are lighter and longer lasting—implying lower lead use per unit.

■ **Zinc.** Count on about a 2% rate of demand gain over the longer pull. Expanding use of galvanized steel in the auto industry will be the prime cause. But even these gains will be held down by reduced overall auto weight and thinner zinc coatings per pound of steel.

LME prices into 1990



\$290/ton range. 2) Several firms have posted increases in commodity white paper grades. And 3) Market pulp lists have just moved up to \$350/ton. Behind the more bullish trend: A rising incoming order flow that is strengthening backlogs—with added assists coming from declining inventories (on the producer level for market pulp and at box plants for linerboard). Figure on the slow uptrend continuing, with price averages for paper products likely to advance 2-3% over the rest of the year.

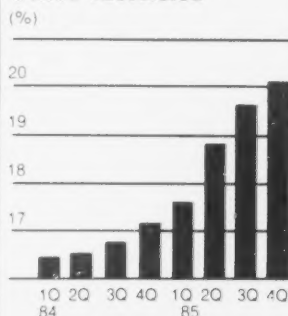
Polypropylene

Prices have managed to inch ahead about 1¢/lb boost that was recently posted. In any event, the homopolymer grade is now going for about 36-38¢/lb. Other signs suggesting a firmer 1986 price scene would include 1) rising demand which looks to advance about 4-5% this year (with good gains in both packaging and nonwovens), and 2) relatively high operating rates (which are expected to average out at the 92% mark this year). And by 1987 the rate could be even higher—probably near 94%.

Office space

Continue to press for concessions—particularly in suburban areas where the average vacancy rate has soared to a peak 22%. Suburban locations sporting higher-than-average

Office vacancies



rates include Dallas, Denver, Houston, Oakland, Orlando, Phoenix, San Antonio, San Jose, and Tampa. The average downtown vacancy also remains at peak rate (16.5% level)—with 20% or higher figures for Denver, Houston, New Orleans, Oakland, Oklahoma City, San Antonio, San Diego, San Jose, and Tampa.

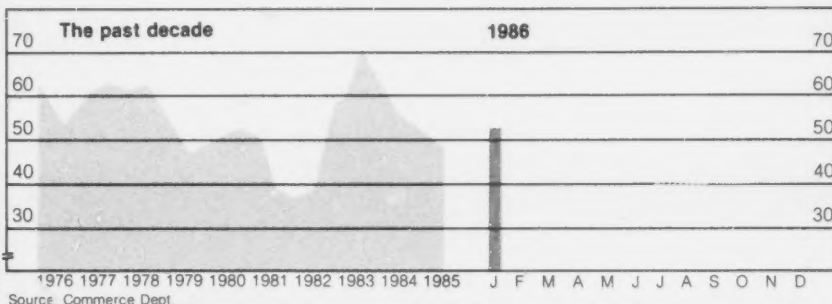
Lead

Disappointing demand from battery makers continues to put downward pressure on prices. This year, the industry looks to turn out only 72 million auto and industrial units—just fractionally above last year's 71 million and little changed from 1984 levels. The fact that Free-World production was up 2% last year when consumption actually dropped a bit isn't helping matters either. Ditto, the continuing lead-in-gasoline phase-out. As such, it's no surprise to see the metal moving at only 18¢/lb. Also, don't look for any major rally—with the metal hard pressed to break even the low 20¢/lb barrier anytime soon.

BUSINESS DATATRAK

NAPM business barometer

Based on five indicators (employment, inventories, new orders, production, vendor performance)



KEY ECONOMIC TRENDS

Leading indicators point to good 2Q

The new year is getting off to a surprisingly good start—with new orders, production, and sales all exceeding earlier projections.

And all signs suggest that the upcoming second quarter will be equally as buoyant. For one, the bellwether NAPM Business Barometer moved further above the neutral 50 mark over the past month.

Other strong and positive factors are at work in the economy as well. The recent plunge in the price of crude oil will probably add as much as a full percentage point to the U.S. annual growth rate this year. GNP should advance almost 4%.

This in turn could make budget cutting a bit easier. Reason: Every percentage

point increase in the GNP growth rate translates into an additional \$17 billion increase in revenues to the federal government.

The oil price decline will work through the economy in other positive ways. Reducing inflationary pressures by as much as one percent this year will give the Fed more leeway to ease the money supply further.

Continuing tight inventories are also contributing to the overall bullish picture. The stock/sales ratio for all manufacturing industries, dropped to 1.40 months at the end of 1985 (the latest reading available). That's a significant decline from the near 1.50 level prevailing just a year earlier—and would seem to virtually guarantee that new final demand increases will be quickly translated into new orders.

Gains in orders already seem to be underway. The latest NAPM Business Survey Committee report shows 34% of the respondents reporting big-

ger orders—nearly twice as many as the 18% noting declines.

Some of the other more specific business barometers have also been doing quite well. Auto sales jumped to an annual rate of 11.5 million in January—the highest figure since the incentive-inflated numbers of last August and September.

Domestic cars did exceptionally well with some 8.6 million (at annual rate) clearing the market in January vs. only 8.1 million (at annual rate) in December.

Construction awards—a time-tested barometer of future building activity—also remain strong, though just a shade under recent highs (see chart).

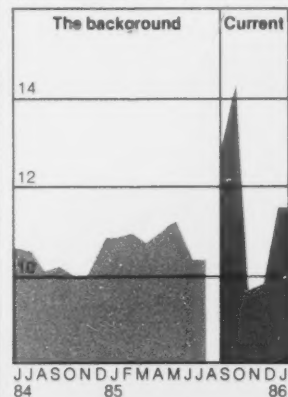
This should help bolster appliance activity. This is confirmed by a new Conference Board survey showing that 34% of queried families expect to buy a major appliance over the next six months.

Another plus sign for the economy is the still-improving employment sit-

Leading indicators

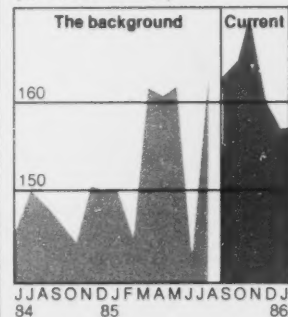
1. Auto sales

(Mil. of units, seas. adj. annual rate)



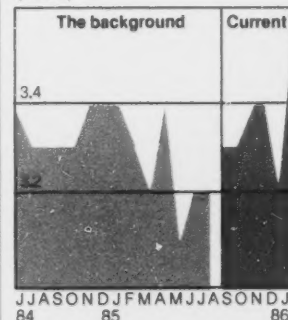
2. Construction awards

(Index: 1977 = 100)



3. Factory overtime

(Hours)



BUSINESS DATATRAK

uation. Business payrolls in January jumped by 566,000 jobs—the biggest gain in more than two years. Particularly encouraging is that manufacturing jobs have been rising.

Also worth noting is that the jobless rate continues to fall (it's now under 7%), help wanted ads are increasing, and overtime remains high. The latter (see chart) means producers are being increasingly pressured by incoming orders and could be ready to increase their workforces even more.

R&D escapes budget axes

Research and development is still going strong despite all-out efforts by government and industry to hold down costs. Outlays for new products and new processes could approach \$117 billion this year—up 9.5% from 1985.

Battelle Memorial Institute, supplying new estimates, adds that the gain will be substantial even after factoring out the inflationary impact. Specifically, the gain (in real terms) will be a relatively healthy

4.5%—slightly above the 4% rate of the past decade.

Most of the funding will come from private industry (49.8%) and from Uncle Sam (46.7%). Other small contributors are academia (2.2%) and other organizations (1.3%).

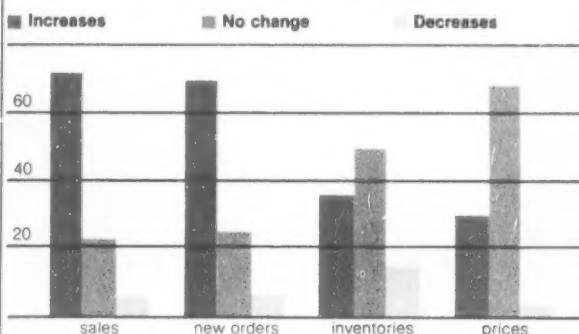
Industry will be the dominant performer here—they will do about 73% of all the work. The federal government and universities will each do about 12% and other non-profit groups will take up the remaining 3%.

What industries will be most active? The aerospace industry will lead the pack with \$18.8 billion worth of R&D—78% of which will be funded by Uncle Sam. In second place are electrical machinery and communications sectors (\$17.7 billion). Following will be machinery (\$11 billion), chemicals (\$9.8 billion), auto and other transportation (\$7.7 billion).

Even the smokestack industries will contribute. Iron and steel makers are planning to boost R&D spending about 60% to \$800 million.

The new study also notes that there is a

A first quarter '86 business appraisal
(1st Q '85 vs. 1st Q '86, % of respondents)



Source: Dun & Bradstreet

tendency recently for federal support to shift more toward development and away from basic and applied research. But Battelle spokesmen add that there is still a small but significant amount of basic research being performed.

They're chipper in the executive suite

The nation's top executives are still sanguine about business prospects. Two convincing pieces of evidence of this:

■ **The Conference Board's Index of Business Confidence:** While the latest reading of 55 is under 1984 peaks, it still represents a 3-4 point increase over the levels of three and six months earlier.

■ **Dun & Bradstreet's Sales Optimism Index:** This key measure (the percentage of firms expecting increases minus those expecting declines) is also under its 1984 high. But again, the 1Q 1986 reading of 66 indicates that most respondents are still betting on more gains.

The D&B survey suggests several reasons why the current positive climate is likely to continue for a while. Factory new orders (which reflect sales a few months down the pike) remain high—70% anticipate 1Q increases compared to only 6% who see declines and 24% who see no change.

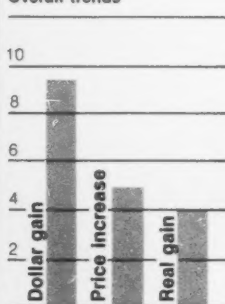
The same study also indicates continuing inventory restraint, thus ruling out unwanted buildup.

Finally, there's the continuing absence of any inflationary pressures. Indeed, the 30% of D&B respondents who expect prices to run above year-earlier levels is actually slightly under the comparable 34% and 32% figures of the last two quarters of 1985.

But perhaps the best indication of corporate optimism about 1986 comes from the Conference Board's survey. Despite the rather modest growth gains anticipated, some two-thirds of the survey respondents say their firms have set 1986 profit targets above 1985 levels—and one-third put the earnings advance in the 5%-plus range.

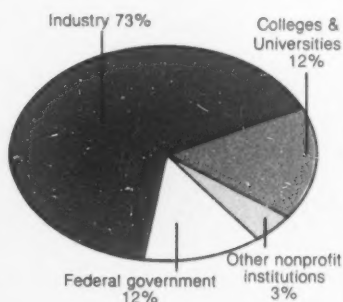
1986 Research & Development

Overall trends



Source: Battelle

Who will do it



BUSINESS DATATRAK

CURRENT PRICES

Oil presses prices

Average industrial producer prices edged down last month about 0.4%, mostly as a result of declines in energy.

Overall fuel and power tags tumbled a hefty 2.9%. Sharing in the de-

cline were gasoline, home heating oil, diesel fuel, residual fuel, kerosene, jet fuel, and coke overrun products. These were more than enough to offset the slight increases in natural gas, finished lubricants, and liquid petroleum gas.

Also note that current levels are still far under those suggested by the recent slide in crude oil. Look for price drops of equal or even greater mag-

nitude over the next few months as the oil shock continues to exert repercussions through the refined petroleum products pipeline.

Machinery and equipment are more representative of the non-energy price trend. Increases in heavy trucks, office machinery, machine tools, and construction machinery pretty much offset declines in chemical machinery, pumps, compressors, truck trailers, and light motor vehicles.

The latter reflects the new wave of manufacturers' subsidized financing which has brought down prices of both light trucks and passenger vehicles. The car decline could continue for a while, as subcompacts are subjected to increased competition from new South Korean and Yugoslav imports.

There are, of course, a few areas where prices have been advancing. Industrial chemicals, notably organics, moved up over the last reported month. But with petrochemical feedstocks now beginning to drop, these increases could be short lived.

A more meaningful rise, however, may have occurred in construction materials which have been bolstered by relatively low interest rates and a mild winter in many areas of the country.

Increases have also been posted on plastic plumbing products, wiring devices, clay construction products, gypsum products, and concrete—more than offsetting fractional declines in plywood and millwork.

This month's breakdown

	Latest level (Jan.)	% change from: Month ago	Year ago
Bearings	353.5	0.1	2.3
Bolts, nuts, etc	275.7	-0.1	-1.6
Chemicals, inorganic	298.8	0.0	0.0
Chemicals, organic	358.5	2.2	1.4
Concrete products	325.5	0.4	3.5
Corrugated cartons	264.6	0.0	-7.6
Cutting tools, small	288.4	0.5	1.1
Electric lamps (bulbs)	346.5	-0.1	2.0
Electronic components	198.9	0.2	0.2
Fans and blowers	361.9	0.2	1.2
Foundry and forge products	363.8	0.1	0.4
Fuel oil (residual)	877.7	-8.1	-21.9
Furniture, commercial	315.2	0.5	5.0
Gasoline	532.8	-6.5	0.5
Glass, flat	229.9	0.1	3.9
Glass containers	386.0	0.0	6.4
Gypsum products	360.3	1.0	9.6
Hand tools	381.2	0.7	3.4
Hand tools, power driven	234.6	-0.6	2.5
Industrial furnaces	395.2	0.9	3.4
Integrating and measuring instruments	233.3	0.3	1.2
Internal combustion engines	348.2	0.3	2.7
Lubricating oil	N/A	N/A	N/A
Lumber millwork	311.7	-0.1	-0.3
Material handling equipment	295.5	-0.2	1.0
Metal containers	361.3	0.0	1.1
Metal mill shapes (nonferrous)	308.9	0.9	-1.2
Metal tanks	305.5	0.1	-0.2
Motors and generators	349.7	-0.4	-0.1
Motor trucks	308.4	-1.3	4.9
Office and store equipment	154.5	0.8	0.7
Paperboard	264.1	-0.2	-8.0
Paper boxes and shipping containers	266.3	0.0	-3.4
Paper office supplies	236.6	0.1	-3.3
Paint	279.4	0.4	0.4
Plastic resins	297.1	0.1	2.7
Precision measuring tools	265.1	0.0	3.2
Pumps and compressors	357.2	-0.1	1.0
Refractories	373.0	0.1	1.9
Rubber belts and belting	339.6	1.0	-1.2
Scales and balances	230.5	0.7	-1.4
Steel products	347.8	-4.2	-4.6
Switchgear	281.9	0.1	0.9
Textiles, synthetic fibers	151.1	0.6	-4.1
Textiles, gray fabrics	151.6	0.0	-1.4
Tires and tubes	235.7	0.0	-1.1
Transformers and power regulators	233.0	-0.1	1.0
Welding equipment	298.7	0.5	2.3
Wire and cable	206.3	0.5	2.0

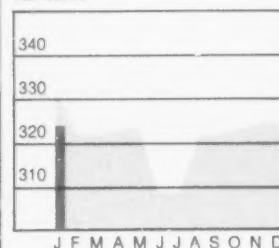
Industrial prices

(Index: 1967 = 100)

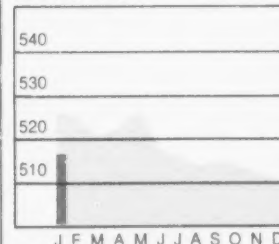
1985

1986

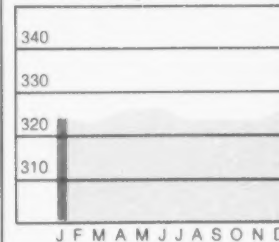
All items



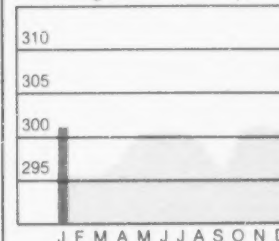
Raw materials



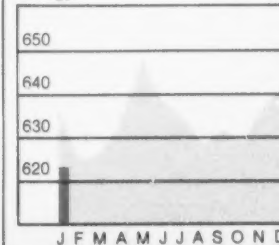
Semifabs, components



Finished goods



Energy

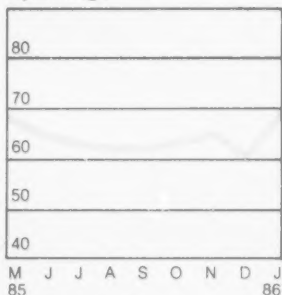


Source: Bureau of Labor Statistics

BUSINESS DATATRAK

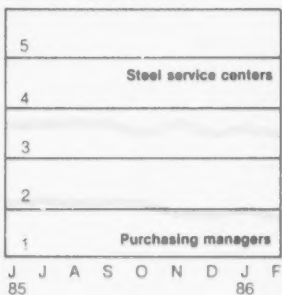
Steel

Operating rates



Inventories

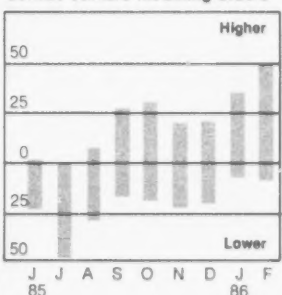
(Months supply on hand)



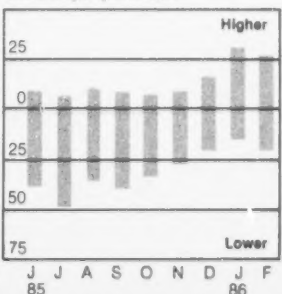
Demand

(Percent of respondents)

Service centers incoming orders



Steel buyer purchase



Source: Steel Service Center Institute, NAPM Steel Buyers Committee

Note that the hefty 4.2% drop in steel mill products is basically a statistical aberration—reflecting the fact that mills have just completed a restructuring of their lists, bringing them down more in line with transaction tags which have not moved much in the past month or so.

STEEL SCENE

Better business spills over into steel market

The unexpectedly good turn in business is rippling into the steel market. But gains are likely to be modest.

Only 22% of the PMs queried by the NAPM Steel Buying Committee see an increase in incoming steel receipts over the next three months—not much more than the 20% who feel that some decline

may be in order.

On another front, about half the distributors responding to the latest Steel Service Center Institute survey see near-term gains in orders, but those gains could slacken off over the longer term.

SSCI president Andrew G. Sharkey feels that for 1986 as a whole, the industry will do little more than hold onto last year's gains—with total shipments again coming to just a bit over 21 million tons.

As Sharkey puts it, "We just don't see a repeat of the growth experienced in 1985. Rather, we expect average shipping rates to continue at or near last year's peaks."

It's a theme echoed by some individual service centers, as well. John Jorgensen, of Earle M. Jorgensen, suggests that 1986 will "probably be a fairly flat year." He adds that while January price hikes by steelmakers initially looked as if they would hold, there is now some doubt about their strength.

Responses to the question of what service centers expect replacement costs to be six months from now also confirm no expectation of major price boosts. While all say they'll be up, the vast majority (74%) put the increase in the modest 2-5% range.

Of much more concern to distributors is what the impact is likely to be on the bottom line. Sharkey notes that profits last year did not keep pace with record volume—primarily as a result of declining inventory values and a highly competitive marketplace.

Achieving a satisfactory return will be the industry's top priority in 1986, he says.

The new steel surveys also reveal some other interesting trends:

■ General business: The near-term outlook seems pretty clear-cut. Specifically, the percentage of both distributors and buyers who see better activity ahead outnumbers the percentage seeing declines by a wide margin.

■ Inventories: Buyer stocks have dropped to just 1.83 months, the lowest level in almost two years. And service centers are maintaining their holdings at the low 3.6 month level.

Despite this, both groups are not quite satisfied that paring is complete. On the service center front, 37% feel that their stocks are still too high—far outnumbering the 5% who think they're too low. The same is true of buyers where the comparable figures are 21% "too high" and 0% "too low."

■ Availability: Nothing to worry about here, except in selected products like coated and hot-rolled sheets.

■ Import prices: Lower foreign tags on imported steel seem to be major factor in the steel equation. Some three out of four buyers say foreign steel is priced under comparable domestic levels, with 3% dubbing the differential as substantial.

Service centers who split out carbon and stainless tell much the same story. In the carbon sector, 86% say foreign steel is cheaper, with 8% putting the price break in the 11-20% range.

And the competitive pressures seem even more pervasive in stainless where an impressive 93% report lower foreign quotes with 36% estimating the advantage in the 11-20% range.

Given all the above, it is little wonder that few are contemplating any drop in steel imports—despite some tightening of quotas in recent months. In fact, it's pretty much the status quo for service centers, with only 13% planning less dependency on imports offset by a similar 13% who anticipate further dependency.

Armed with this kind of information, SSCI's Sharkey sees only a token drop in overall steel imports this year with overseas tonnage edging down only slightly and the import share of the market holding in the still high 22.5-23% range.

PROCUREMENT STATUS

No tightening in an improving economy

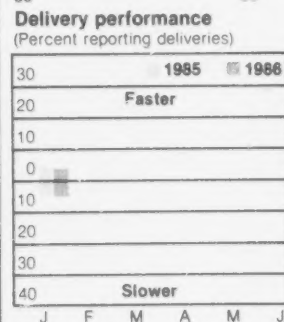
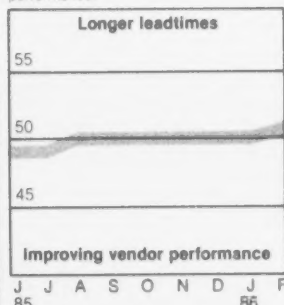
There are still no signs of any supply tightening in spite of a business pickup that has seen industrial demand advance for four consecutive months.

One reason: The increases in factory activity have been gradual. New capacity, which is still coming in at a 3% annual rate, has just about offset the increased output, thus

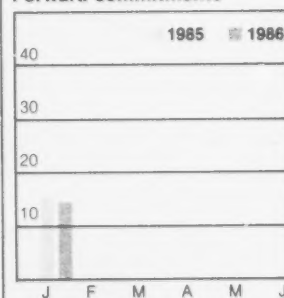
Monthly procurement status report

Leadtime index

A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.

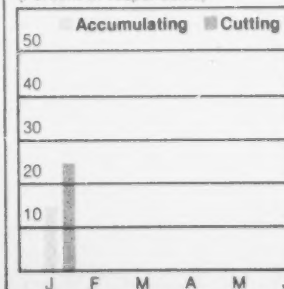


Forward commitments



Inventory strategy

(Percent of respondents)



Source: NAPM

keeping average operating rates at the relatively low 80% level.

Then, too, steady increase in supply from overseas sources also helps. Current forecasts call for gains to continue through the current year—even with a somewhat weaker dollar.

Whatever the reason(s) for today's "buyers' market," *PW's* latest procurement status survey suggests that there are no indications of any significant changes in the offing.

Our exclusive leadtime index, for example, registered only a modest 51 last month (just 1% above the neutral 50 mark). That's a remarkably stable performance for this early in the year when normally this barometer shows some seasonal rise.

The same picture is signaled by the NAPM speed-of-delivery report. Specifically, 5% of the buyers reporting have recently experienced slower deliveries but this is effectively offset by a similar 5% who reported some improvement. More important, the vast majority (90%)

are experiencing no change.

Other reassuring signs: ■ The absence of items on the short-supply list—not one single problem area cited for 12 consecutive months.

■ Buyer stocks continue to decline. 25% currently report lower stocks and only 15% report higher stocks.

■ Forward commitments that remain exceptionally low. More than one out of five now buy on a hand-to-mouth basis and another 40% find it unnecessary to commit more than 30 days in advance.

About the only disquieting note on the buying front is that the softer price trend of the last few months seems to be leveling off. The number of buyers reporting higher prices now offsets the number noting lower quotes.

But this, too, can be regarded as a seasonal effect. Typically, most vendors use the first part of the year to post price increases—many of which wash out as the year wears on.

Leadtimes and availability

Chicago: A mixed picture here. Longer waits for chrome, chemicals and surfactants (1-1), special brass tube (8-12), and softwood framing (1-2). But more than offsetting are drops in batteries (10-14), cold-rolled sheet (5-6), aluminum sheet (6-7), brass and copper sheet (1-2), special copper tube (6-8).

Cleveland: Reduced leads are reported on waterproof papers (4-5 weeks), 2-ply fiber drums (2), steel drums (on demand), and polyethylene and PVC resins (2). Plastic packaging materials are moving out to 3. Unchanged are softwood lumber (1-3), skids (1-3), and alloying materials (on demand).

Los Angeles: A rather quiet month—with these weekly leads: Galvanized steel (6-8), aluminum tubing (6-8), grey iron castings (8-10), brass castings (4-6), electro-mechanical devices (6-8), pumps (10-12), domestic fasteners (4-6), stainless coil (12-14), and standard valves (10-12).

BUSINESS DATATRAK

Houston: High pressure heat exchangers have moved in a month (to 5-8). Unchanged are motor control centers and power transformers (3-7 months), metals (1-4), centrifugal compressors (10-12), pumps (4-7), corrugated cartons (2), galvanized steel coils (2 wks), and 4-color process printing (2-6).

Philadelphia: Metal film resistors have moved out significantly—from 8-10 weeks to 14 weeks. And while CMOS ICs are steady (off the shelf to 10-12 weeks), some modest stretchout is expected. Other electronic components remain relatively unchanged. But steel items could be out a bit by mid-spring.

Pittsburgh: Corrugated and folding box waits continue at 3-4 weeks. Status quo for all types of drums (1), multiwall paper bags (6), waterproof papers (8), plastic packaging materials (2-3), lumber (3-4), steel strapping (2-3), paint (4-5), polyethylene and PVC (5-6), and alloying metals (2).

Leadtimes (in weeks)

	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	4	4	4
C-R Sheet (Chgo)	5½	7½	6½
Plate (Phil)	3½	3½	3½
Plate (Chgo)	2½	2½	2½
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	5½	5½	7
H-R Bars (Chgo)	3	3	3
Cold-Drawn Bars (Phil)	5½	5½	7
Galvanized (LA)	7	7	13
Galvanized (Chgo)	7	7	7
Structurals (Chgo)	4½	4½	4½
Structurals (Hous)	17	17	17
Tubing (Phil)	5½	5½	7
Grey Iron Castings (LA)	9	9	9
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	13	13	13
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	13	13	13
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	7
ICs (Linear) (Phil)	11	11	15
Motors (Phil)	10	10	11
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	9	9	10
Relays (Chgo)	15	15	15
Resistors (Chgo)	9	9	10
Resistors, Wirebound (Phil)	5	5	8
Transformers (Chgo)	10	10	10
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	1½	1½	1½
Plywood (Chgo)	1½	1½	1½
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	2	2	1
Softwood (Phil)	¾	¾	¾
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Napthalene (Chgo)	2	2	2
Paint (LA)	1½	1½	4
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	2	2	2½
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	2	3	3
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	2	2	3½
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1

PACKAGING

	Now	Month ago	Six months ago
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	2½	2½	2½
Cartons, Corrugated (Hous)	2	2	2
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	6	6	6
Shrink Film (Clev)	1	1	1
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	1	1	1
Strapping (Pgh)	3	3	3

PAPER

Fiberboard (Clev)	3½	3½	2½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	1	1	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½

NON-FERROUS

Aluminum Coil (Chgo)	11	11	11
Aluminum Plate (Chgo)	10	10	12
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	9	9	11
Brass Castings (LA)	5	5	7
Brass Rods (Chgo)	6½	6½	3
Brass Sheet (Chgo)	4	4	1
Brass Tube (Chgo)	10	7	10
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	6	6	6
Copper Tube (LA)	7	7	7
Copper Tube (Phil)	5½	5½	6
Lead (Pgh)	2	2	2
Magnesium (Pgh)	2	2	2
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	2	2	3
Wire, Specialty (LA)	5	5	5
Zinc (Pgh)	2	2	2

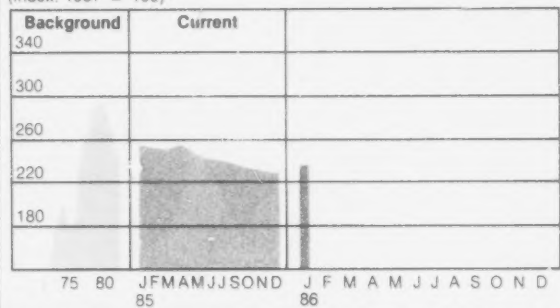
MISCELLANEOUS

Bearings, Domestic (Phil)	2	2	2
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	48	48	52
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	5	5	5
Fasteners, Std. (Phil)	1½	1½	2
Heat Exchangers, Carbon-alloy Steel (Hous)	21	21	21
Heat Exchangers, Hi-pressure (Hous)	28	33	39
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	2½	2½	2½
Pumps (Hous)	24	24	30
Pumps (LA)	11	11	13
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	17	17	17
Welding Supplies (Hous)	5	5	5

Raw material price barometer

Latest month 237.6
Month before 235.0
Year ago 255.8

(Index: 1967 = 100)



Latest spot market prices

FERROUS METALS

	Latest price	Previous month	Year ago
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	25.10
Steel, bars, divd. Phila., cwt., merchant quality	23.95	23.95	23.95
Steel, bars, Pitts., cwt.	23.95	23.95	23.95
Steel, bars, C.R., Pitts., cwt.	31.00	31.00	29.25
Steel, plates, Pitts., cwt.	18.25	18.25	23.25
Steel, plates, H.R., Pitts., cwt.	18.25	18.25	23.25
Steel, sheets, C.R., Detroit, cwt.	25.15	25.15	27.10
Steel, strip, C.R., Chi., cwt.	36.18	36.18	35.30
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65

NONFERROUS METALS

Aluminum, ingot, lb. (market place)	0.563	0.533	0.510
Antimony, in alloy, lb.	2.00	2.00	2.00
Beryllium-copper, cast ingot, lb.	5.35	5.35	5.35
Brass, red, 85%, [sheet], lb.	1.30	1.32	1.28
Brass, yellow, [sheet], lb.	1.25	1.27	1.23
Cadmium, ton lots, lb.	1.00	1.00	1.25
Copper, electrolytic, wire bars, refd., lb.	0.67	0.69	0.65
Copper sheet, over 24 in., lb.	1.39	1.41	1.37
Lead, common, N.Y., lb.	0.180	0.185	0.190
Magnesium, pig ingot, [99.8%], lb.	1.53	1.53	1.48
Mercury, 20 fl. lots, N.Y., fl.	250.00	269.00	310.00
Molybdenum, oxide, dealer lb.	2.70	2.55	2.90
Nickel, cathode, dealer lb.	1.88	1.95	2.27
Platinum, dealer, oz.	353.00	364.00	274.00
Silver, N.Y., oz.	5.91	6.05	6.10
Tin, Straights, N.Y., lb.	N.A.	N.A.	5.65
Zinc, Prime West, East St. Louis, lb.	0.34	0.34	0.43
Zinc, die casting alloy, No. 3, lb.	0.415	0.415	0.495

PAPER

Uncoated book #3 offset, ton	850.00	850.00	850.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	16.15	16.23	16.25
Boxboard, mach. clay ctd. recycled sheets 80 bright, .016, ton	495.00	495.00	495.00
Wrapping paper, std. distributor cost, kraft, basis wt. 50 lb., roll	28.00	28.00	28.00
Kraft linerboard, 42 lb., unbleached, ton	290.00	290.00	320.00

TEXTILES

Burlap, 10 oz., 40", N.Y., yd.	0.236	0.255	0.383
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.045	1.045	1.030
Cotton middling, 1", N.Y., lb.	0.600	0.595	0.598
Printcloth, 48", 80x80, N.Y., spot, yd.	0.66	0.72	0.71
Army duck, 37", 13 oz., yd.	1.50	1.56	1.96
Blended printcloth, 64", 78x54, yd.	0.750	0.800	0.740
20s combed yarns	1.95	1.95	2.12
Wool tops, N.Y., lb.	3.60	3.60	3.60

CHEMICALS

Acrylonitrile, tanks, lb.	0.395	0.455	0.455
Ammonia, anhydrous, fertilizer, wholesale, tanks, ton	210.00	210.00	210.00
Benzene, petroleum, tanks, Houston, gal.	1.05	1.20	1.17
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	0.58	0.58	0.58
Formaldehyde, USP, 37% [12% to 15% meth.], tanks, lb.	0.106	0.106	0.106
Glycerine, synthetic, tanks, lb.	0.91	0.91	0.86
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	0.52	0.52	0.54
Naphthalene, crude, tanks, lb.	0.22	0.22	0.22
Phthalic anhydride, tanks, lb.	0.270	0.270	0.305
Polyethylene resin, low density liner film grade (market price), lb.	0.310	0.310	0.290
Polypropylene, homopolymer grade (market price), lb.	0.350	0.350	0.340
Polystyrene, general purpose grade (market price) lb.	0.350	0.340	0.350
Polyvinyl chloride, pipe grade (market price), lb.	260	250	290
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	0.26	0.26	0.35
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	157.50	157.50	157.50
Sulphuric acid, 66%, commercial, tanks, ton	66.86	66.86	56.85
Titanium dioxide, anatase, reg., carlots lb.	0.73	0.73	0.69
Xylene tanks, gal.	1.36	1.36	1.26

BUILDING MATERIALS

Lumber, 2x4 fir, mbf, cl	303.90	306.40	301.70
Lumber, 2x2, pine, mbf, cl	294.95	291.95	300.40
Plywood, plyform, 3/4", msf, cl	567.95	582.15	563.00
Plywood, 3/4", msf, cl	377.00	380.36	375.10
Cement, bulk, ton, tl	65.92	64.98	64.46
Sand, ton, cl	6.41	6.41	6.20
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	47.94	48.12	47.66
Crushed stone, 1 1/2", ton, cl	7.82	7.86	7.52
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.82	0.82	0.79
Gypsum sheathing, 1/2"x1"x8", msf, tl	207.69	208.69	205.44
Brick, common, per thousand, tl	184.06	184.61	179.15
Asphalt paving, AC-20	174.14	176.14	173.17
Concrete sewer pipe, 12", prem. joint, per foot, cl	7.14	7.14	6.97

FUELS

Fuel oil, No. 6 or Bunker C, Gulf, bbl.	14.00	20.00	26.25
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	22.50	27.00	31.00
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	0.625	0.743	0.725
Gasoline, 94 oct., reg., Chi., tank car, gal.	0.578	0.708	0.699
Heating oil, No. 2, Chi., bulk, gal.	0.630	0.773	0.730
Heating oil, No. 2, N.Y., bulk, gal.	0.545	0.768	0.808
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.50
Jet kerosene, gal.	0.520	0.753	0.770
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	0.430	0.430	0.388

SCRAP MATERIALS

Steel, No. 1, hvy., divd., Pitts., ton	77.00	74.00	87.00
Steel, No. 1, hvy., divd., Chi., ton	76.00	73.00	81.00
Copper, No. 1, East, wholesale buy, divd., lb.	0.575	0.580	0.560
Copper, No. 2, East, wholesale buy, Brass, red, East, wholesale buy, divd., lb.	0.505	0.510	0.475
Brass, yellow, East, wholesale buy, divd., lb.	0.535	0.540	0.520
Alum., old sheet/cast, E., wholesale buy, divd., lb.	0.290	0.290	0.340
Alum., mixed clip, E., wholesale buy, divd., lb.	0.355	0.320	0.335
Zinc, old, East, wholesale buy, divd., lb.	0.370	0.345	0.350
Lead, clean solids, East, wholesale buy, divd., lb.	0.150	0.110	0.140
Paper, No. 1 mixed, dir., N.Y., ton	0.100	0.100	0.110
Paper, old corrug. box, dir., Chi., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dir., N.Y., ton	10.00	8.00	15.00
Osnaburg cuttings, dir., f.o.b. N.Y., lb.	10.00	6.00	10.00
White wipers, No. 1, dir. buy, f.o.b. N.Y., lb.	0.120	0.080	0.120
	0.14	0.14	0.34

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

Rates riding in the slow lane

Some good news about freight rates for transportation buyers: A combination of overcapacity, competitive infighting, and restrained cost increases should limit this year's overall price gains to about 4%, says a forecast prepared exclusively for *PurchasingWorld* by Wharton Econometrics.

This new estimate is actually 0.2% under projections made late last year (*PW* 12/85, p. 52) and an even larger 0.4% drop from the level projected just six months ago.

And these estimates may well have to be pared again because the forecasts do not take into account all the ramifications of the recent drop in fuel prices—a drop which, if it persists, could have a further downward impact on truck and air-freight costs.

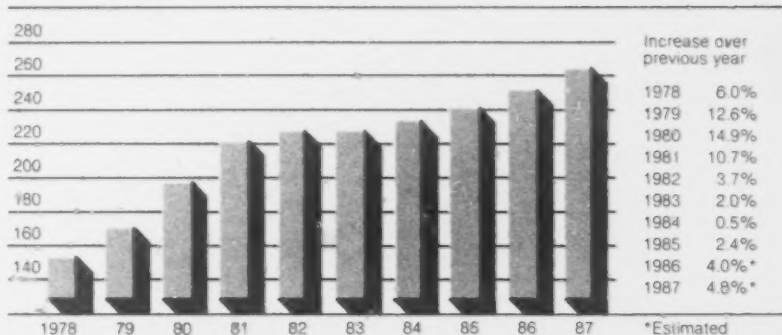
These numbers are also average figures and, therefore, tend to mask some of the deals transportation buyers have been able to swing in return for long-term contracts. Some transportation buyers say they are able to hold the line at last year's freight rate levels.

■ **Rail:** Competitive pressures are being heightened by a 4.1% drop in ton-miles last year—wiping out a fair portion of 1983's 11.6% advance. This year isn't looking too good either, with ton-miles expected to remain fairly flat.

Part of this can be attributed to modest gains in coal (rail's top customer) and lackluster grain exports

PurchasingWorld freight rate index

(1972 = 100)



as overseas buyers rely less on U.S. purchases. Another factor could be the increasing encroachment of imported goods into the U.S. market. Considering that these goods are not funneled through as many stages of the production and sales chain as domestic goods—the negative impact on freight volume is obvious.

The resulting poor demand will again tend to limit rail rate increases—though the 4.2% increase envisioned for the current year is above last year's 3.5%. And even next year, when some slight acceleration is expected, the gain is pegged at only 4.5%.

■ **Trucking:** Activity slowed down in 1985 for many of the same reasons that apply to rail freight. Inter-city ton-miles dropped off 1%—again in sharp contrast to the previous year's nearly 10% increase. While some modest pickup is ex-

pected this year (maybe 5% or so), cut-throat competition should limit rate hikes again.

Wharton economists put the average 1986 rate advance at 4.2% (the same as for rail). But they hasten to add that this could prove to be a bit high if fuel costs continue to fall.

■ **Barge:** The industry had a rough 1985, as reduced demand and overcapacity continued to plague the waterways. Great Lakes traffic has been flat and is likely to remain so, as grain and coal shipments continue to be disappointing. Overcapacity is highlighted by the fact that 30% of the dry cargo fleet and 30-40% of the tank barge fleet are currently laid up.

Not surprisingly, barge rates show the most modest increases of all modes in 1985 (2.2%). And they are likely to stay on the low end for the next few years, with 1986 and 1987 increases put at only 3.5% and 4.1%.

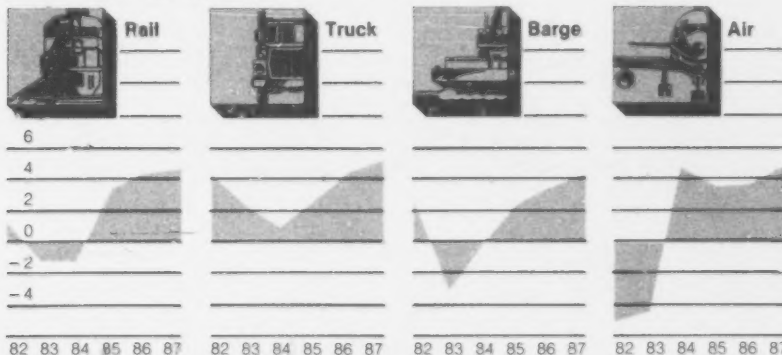
■ **Air:** The industry has come off a mixed year, with a 10% increase in passenger demand offset by declines in both domestic air freight (9%) and international air freight (4%).

On the other hand, there are some exceptions—notably small package and express mail where unit shipments over the first six months of 1985 jumped 25%. But competition here is severe and likely to remain so.

This price infighting is also making it hard to boost overall air cargo rates, particularly with demand below expectations. **PW**

Freight cost outlook by mode

(Percent increase over previous year)



Source: Wharton Econometric Forecasts

More to imports than bargains

The U.S. dollar may have weakened a bit, but you would never know it by the way imports continue to come in at a record rate. And all signs point to even more in the coming months.

Buyers say imports are still bargains, with quality often as good or better than their American counterparts. This attitude, determined by a new *PurchasingWorld* nationwide survey of top purchasing execs, is summed up by a Midwestern purchasing VP who says: "Importing is now a necessity. Everybody's doing it."

To reinforce his point, he notes that offshore buys now permeate the economy, making up almost 11% of overall demand in this country. That's nearly double the rate of just 15 years ago.

Here's a more detailed breakdown of what purchasing executives have been telling *PW*:

■ **Recent import price trends:** The weaker dollar has yet to have significant impact. Nearly two of three respondents report unchanged or lower prices compared to a year ago.

■ **The import price advantage:** The average price break is pegged at 14%. And more than 30% of the respondents say the savings average out at 20% or higher.

■ **Best bargains:** Among the product lines listed are electronic components, office equipment, steel mill products, metal alloys, stainless castings, fasteners, bearings, valves, batteries, motors, textiles, tires, selected chemicals, and machine tools.

■ **1986 demand:** Nearly two of three respondents anticipate a stepup in incoming shipments—far outweighing the 21% who see no change and the 13% who feel that imports could drop off a bit over the current year.

The decline in the value of the dollar is downplayed in these esti-

mates. Most respondents don't think it will decline much under the 15% drop over the past year. They note that this depreciation has not had much of an impact because overseas profit margins were overinflated when the dollar was riding high. Hence foreign sellers have been able to absorb the effect of a weaker dollar without making much upward adjustment in their asking prices from American buyers.

Another indication that foreign producers are not about to give up their lucrative U.S. market is that 40% of PMs say their overseas suppliers are more active now than in the past in soliciting new business.

Judging from buyer comments, these overseas vendors are not having too much difficulty drumming up interest. Buyers quote several reasons—in addition to the price factor—for going the foreign route:

- Many buyers say that with quality being a prime consideration, they find overseas material often superior to domestic offerings. One PM tells of small gas engines which offer significant performance advantages over U.S. engines, as do Japanese diesel engines in the 16-30 HP range.

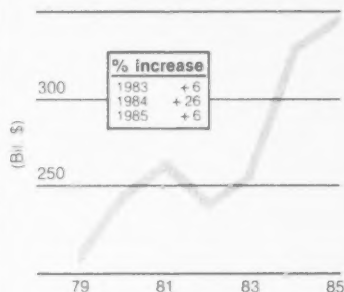
- Another factor is the need for an overseas backup source, or where the domestic supply is either inadequate or nonexistent. One buyer notes, for example, that British steel mills will roll special sections that U.S. mills won't touch because of the small volume.

- Then there is the bargaining leverage angle. One PM says that while he doesn't buy that much from foreign vendors, he uses the lower prices of imports to help keep the lid on domestic quotes.

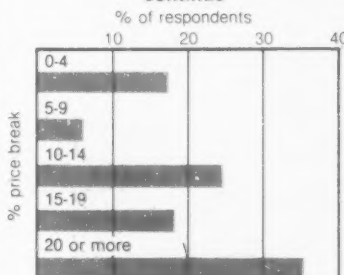
- Several respondents also note that they are in the process of building up close relationships with offshore sources. Because of this, many pre-

Imports: Still Going Strong

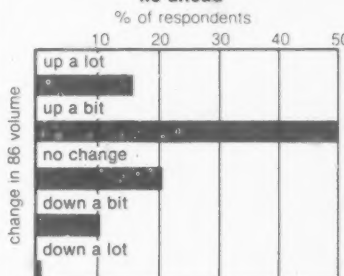
Dollar totals are still rising...



...As price advantages continue



And more imports lie ahead



Source: PW Survey, Commerce Dept.

fer to bypass brokers and deal directly with the overseas seller.

One buyer taking this tack points out that "We are in an international market place. If a foreign source can exhibit an advantage as a quality supplier, he will receive a percentage of our business." *PW*